

Small Business Qualified Wellness Program Tax Credit Plan

Submitted by the Iowa Department of Public Health, in collaboration with the Iowa Department of Revenue and the Iowa Department of Commerce, Insurance Division, as directed in House File 2539, Division XIII, Section 64

Introduction

Seventy five percent of costs related to health care in the United States can be attributable to chronic disease (Centers for Disease Control and Prevention [CDC], 2003). Behavioral choice is one factor that contributes to the prevalence of these health conditions (US Department of Health and Human Services, 2003). “In particular, overweight and obesity, lack of physical activity and smoking greatly increase the risk of developing the most serious chronic disease disorders” (US Department of Health and Human Services, 2003, p. 3). The increasing prevalence of chronic disease may be a contributing factor in the reported \$1.4 trillion America spent on health care in 2001 (CDC, 2003).

In Iowa, more than 64 percent of Iowa adults are overweight or obese (IDPH, 2007). “Iowa’s direct costs attributable to obesity were estimated from data from the late 1990’s to be \$783 million, of which \$198 million is paid by Medicaid and \$165 million, by Medicare” (IDPH, 2007, p. 34).

Business and industry have borne expenses related to the increased costs of health care. In an effort to reduce health insurance expenditures, employers are increasingly making wellness programs and services available at the worksite. Studies of large businesses implementing such programs indicate a return on investment of up to \$4.91 for every dollar spent (United States Department of Health and Human Services, 2003). Small businesses may lack the resources to implement wellness initiatives. A tax credit for worksite wellness programs may provide the support small business need to improve employee health, decrease employer health care costs and increase productivity.

Summary of Recommendations and Action Needed to Implement Tax Credit

Legislative action will be required in the 2009 legislative session to direct the Iowa Department of Public Health (IDPH) to write administrative rules that will implement the plan outlined on the following pages. If legislated, small businesses with less than 100 employees will be able to receive a tax credit for a qualified wellness program within their organization.

Qualified wellness programs must include an assessment, education and evaluation component. The wellness program must also include education on tobacco cessation, weight loss and pursuit of preventive health care and disease management services. IDPH will further define the standards and criteria in the administrative rules, when legislated. A committee will be established to certify wellness programs submitted by application to IDPH. IDPH will issue a certificate to businesses with qualifying wellness programs. A data file with the names of small businesses with qualified wellness programs will be submitted to the Iowa Department of Revenue.

One-half of the cost of the qualified wellness program, up to three hundred dollars per employee, will be allowed. The tax credit certificate number will be submitted with the small business tax return. An estimated 100 small businesses will take advantage of the tax credit in year one. Maximum program costs are estimated to be \$435,000, based on 100 small businesses of ten employees receiving the credit. A long-term, projected minimum return on investment (ROI) of \$1.43 for every dollar spent on the wellness program will result in an estimated ROI of \$447,000 based on year one program costs (United States Department of Health and Human Services, 2003).

Small businesses will report evaluation results to IDPH each year. A report of program results and costs will be submitted to the legislature every two years.

Definition of a Small Business for the Purpose of this Legislation

Small businesses eligible to receive the tax credit for the Iowa qualified wellness programs will:

- Be actively engaged in business for more than 50% of the calendar year, and
- Employ two to 100 full-time employees, the majority of whom work in Iowa.
Definition of full-time: employed greater than or equal to 30 hours per week and more than 50% of the calendar year.

Justification: Health insurance coverage issued to employers with two to 50 employees is referred to as the small group market in Iowa. Within limits, the premiums of a small group can be based on the group's health status or claims experience. The 10th Annual Iowa Employer Benefits Study revealed participating employers reporting a firm size of 10 to 19 employees had an average health insurance rate increase of 13% and those with 20 to 49 employees an increase of 11.4%, compared to employers with a firm size of 250 to 999 employees who only averaged an increase of 6.8% (David P. Lind & Associates, LC, 2008).

There are an estimated 88,109 small businesses in Iowa with less than 50 employees* (Iowa Workforce Development [IWD], 2008). To positively impact the health of more Iowans and potentially decrease employer health care costs and improve productivity, it is recommended the tax credit be made available to employers with up to 100 full-time employees. The estimated number of small businesses with less than 100 employees is 91,316 (IWD, 2008).

*The data available from the Iowa Workforce Development include the number of small businesses with 0-100 employees. The recommendation for the tax credit is 2-100 employees.

Minimum Standards in Establishing a Qualified Wellness Program

To be eligible for the small business qualified wellness program tax credit, an employer must offer a wellness program with each of the following three components:

- 1) Health assessment,
- 2) Educational materials and services, and
- 3) Measurement tool to report positive health outcomes.

Justification: Assessment and evaluation are two components of the program design section of the Centers for Disease Control and Prevention (CDC) Healthier Worksite Initiative. The remaining two components, planning and implementing, will be considered in the educational materials and services standard. Taken together, these components may improve employee productivity and health (CDC, 2008).

Employee health may be assessed through health risk assessments, employee health surveys and/or employee-comprised wellness committee recommendations. Several health insurers offer health risk assessment as a free service to their insured companies.

The evaluation component will include process measures including the number and percent of employees engaged and satisfied with the wellness program, as well as outcome measures including reported change in knowledge, attitude, skills or behavior.

Policy changes addressing health promotion at the small business with qualified wellness programs are highly encouraged. An example of an environmental policy change is implementing healthy food choices in vending machines.

Criteria and Process for Certification of a Small Business Qualified Wellness Program

The minimum criteria for a qualified wellness program will include all of the following:

1. Tobacco cessation,
2. Weight loss and
3. Pursuit of preventive health care and disease management services.

The Iowa Department of Public Health (IDPH) will, if legislated, develop administrative rules and small business application guidance further defining the minimum criteria. Tobacco cessation programs will follow the recommendations of the U.S. Public Health Service Clinical Practice Guideline: Treating Tobacco Use and Dependence (HHS, 2008). Weight loss initiatives will include provisions for both nutritional and physical activity components. Preventive health care and disease management services may include diabetes management programs, nutritional counseling and stress management classes, among other initiatives. IDPH will determine provider licensing requirements and approved evidence-based programs through the administrative rules, following legislation allowing a small business qualified wellness program tax credit.

Incentives are not required for a qualified program, but may be used at the discretion of the small business.

Justification: Unhealthy behaviors such as poor food choices, physical inactivity, and tobacco use are related to a variety of chronic disease conditions. Preventing and managing chronic disease may improve employee health and decrease employer health costs. Several studies have indicated employees who smoke cost their employers more than those who do not smoke (HHS, 2003). “Employers and businesses bear a sizable portion of costs associated with treating obesity-related conditions, primarily in terms of lost productivity and the increased cost of health and disability insurance. Studies of overweight and obese employees have shown that obese employees take more sick leave than non-obese employees and are twice as likely to have high-level absenteeism (seven or more health-related absences during the last six months)” (Health and Human Services, 2003, p. 9).

Process for Certification:

1. A small business will obtain an application with application guidance from the IDPH Web site or request a paper copy of the forms from IDPH.
2. The applicant will complete the application noting how the three criteria, tobacco cessation, weight loss and pursuit of preventive health care or disease management will be met with the wellness program. In addition, the applicant will address each standard (assessment, education and evaluation) under each of the three criteria. Technical assistance for completion of the application will be available through the Iowa Department of Public Health, Bureau of Nutrition and Health Promotion.
3. The small business will submit the application to IDPH prior to October 1 to receive credit for the current calendar year. IDPH will receive any clarification on the application before November 15. The department may charge a reasonable fee for application processing.
4. The application will be reviewed by the Small Business Qualified Wellness Program Tax Credit Committee, appointed by IDPH. One member will represent small business and one member will represent the Wellness Council of Iowa. One member will be a subject matter expert and may be an employee of IDPH. Additional IDPH staff will be available, as needed, to serve as subject matter experts. The application will be approved or denied based on the detailed criteria established by the administrative rules and application guidance.

5. A certificate, with a unique identification number and verification that the program is a qualified wellness program, will be issued to the small business by IDPH. A data file listing the small businesses eligible for the credit, along with the contact information and the certificate identification number, will be forwarded to the Iowa Department of Revenue.
6. The small business will report evaluation results before March 15th of the following year to IDPH. A report detailing the number of small businesses receiving the credit, the total amount of the credit awarded and the evaluation results to the legislature every two years.

Process for Claiming a Small Business Qualified Wellness Tax Credit

1. The small business with a qualified small business wellness program will submit the certificate number with the tax return if submitting electronically. If a paper return is completed, a copy of the Qualified Wellness Program Certificate will be included.
2. For profit businesses organized as a partnership, limited liability company, S corporation, estate or trust may claim a small business qualified wellness program tax credit. Credit to the insurance premium tax and moneys and credits tax will be allowable under this qualified wellness plan, as well as credits allowable for individual income, corporate income and franchise tax.
3. The amount of the credit for each employer will equal 50 percent of the program cost attributable to the criteria of the qualified wellness program. The maximum allowable credit is \$300 per employee per calendar year.
4. Any credit in excess of the tax liability will be refunded by the Iowa Department of Revenue with interest computed under section 422.25. In lieu of claiming the refund, the taxpayer may elect to have the overpayment shown on the taxpayer's final, completed return credited to the tax liability for the following year.

The Iowa Department of Revenue, in collaboration with the Iowa Department of Public Health, will adopt rules to administer this section of the plan, if legislated.

Projected Fiscal Impact

There are currently 91,316 small businesses in Iowa with fewer than 100 employees (IWD, 2008). The following calculations are based on 100 eligible businesses applying for the credit in year one. This estimate is double the number of businesses that utilized the credit in the first year of another state's small business qualified wellness program tax credit. The majority of Iowa small businesses employ between 5 and 19 employees (IWD, 2008). Ten employees will be used in calculations. Studies completed on large business wellness programs revealed a return on investment (ROI) between \$1.49 and \$4.91 for every \$1 spent on the program (United States Department of Health and Human Services, 2003). With no similar studies on small businesses available, the lowest potential ROI of \$1.49 will be used for these calculations.

It is estimated that one full-time equivalent at the Iowa Department of Public Health will be needed to coordinate and build the program in year one. With continued program growth, additional staffing may be required. Additional expenses to support the position, administer the program effectively, and build the program are included.

The Small Business Qualified Wellness Tax Credit Plan will need a coordinator to:

- Create the application and application guidance,
- Keep the Web site current, respond to inquiries about the tax credit,
- Receive applications and gather appropriate information for the review committee,
- Award certificates,
- Complete reports to the Iowa Department of Revenue and the Iowa Legislature,
- Coordinate review committee meetings,
- Compile evaluation results, and
- Build the program and coordinate marketing efforts.

Year 1 Estimated Tax Credits Applied <i>(Estimate 100 businesses with an average of 10 employees and maximum allowable credit received)</i>	- \$ 300,000
Year 1 Estimated Staff and Administrative Expenses	- \$ 135,000
Year 1 Estimated Minimum Return on Investment (\$1.49 per \$1.00 invested)	+\$ 447,000
Estimated Program Benefit	+\$ 12,000

References

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